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SUBJECT: CROSS-STRAIT TOURISM - INDUSTRY HAS HIGH
EXPECTATIONS, TAIWAN GOVERNMENT STANDING IN THE WAY

REF: TAIPEI 2479

Classified By: AIT Director Douglas H. Paal, Reason 1.4 b

Summary

[1](#)1. (C) The PRC has announced plans to allow the general public to visit Taiwan as tourists. The reaction in Taiwan's tourism industry has been enthusiastic, with Taiwan's tourism stock index increasing 37 percent since late April. A mixed Taiwan government reaction has delayed rapid implementation. Although Premier Frank Hsieh indicated that Taiwan would welcome such tourists, the Mainland Affairs Council has insisted that some form of government-to-government negotiation precede implementation. Estimates of the potential increased revenue for Taiwan's economy range as high as NT\$ 24 billion (USD 770 million). Some of these estimates may be excessively optimistic, but the potential for substantial economic gains is real if the Chen Administration decides to stop standing in the way of implementation. If the Taiwan government is suitably flexible about the model for negotiations, there may be hope for progress. End summary.

PRC Offers to Open the Gate for Mainland Tourists

[1](#)2. (U) On May 20, the PRC's National Tourism Administration (CNTA) announced plans to allow the general public to visit Taiwan as tourists. The more formal announcement followed the PRC's offer to expand tourism during Kuomintang (KMT) Chairman Lien Chan's visit to China April 26 - May 3. The CNTA announcement indicated that private sector organizations from each side of the Taiwan Strait could negotiate details of the new policy as was the case for Lunar New Year charter flights earlier this year, using what is now frequently referred to as the "Macao model."

Taipei Wants Government-to-Government Negotiations

[1](#)3. (U) The mixed Taiwan government reaction thus far to the PRC's proposal has had the effect of delaying rapid implementation. On May 23, Taiwan Premier Frank Hsieh publicly welcomed the initiative. He argued that currently the PRC is responsible for restrictions on travel to Taiwan by Mainland tourists. He indicated that Taiwan would be willing to accept up to 1,000 Mainland tourists per day for stays as long as 10 days.

[1](#)4. (C) Officials from Taiwan's Mainland Affairs Council (MAC) have insisted that the PRC's proposal requires government-to-government negotiations. According to press reports, MAC Chairman Joseph Wu, testifying before the Legislative Yuan on May 23, said that the talks modeled on the Lunar New Year charter flight negotiations would be acceptable to Taiwan. However, he also emphasized that the issue must be discussed by the two governments, and Civil Aeronautics Administration Director-General Billy Chang would lead the Taiwan delegation. (Note: The Taiwan delegation in the Lunar New Year charter flight negotiations in Macao was led by Taipei Airline Association Chairman Michael Lo. Chang and another CAA official were the two Taiwan government officials in the delegation. End note.) MAC Economics Department Director Fu Don-cheng later told AIT/T that he expected Taiwan would insist that MAC officials also participate in the negotiations. MAC officials have indicated that some form of government-to-government negotiations are necessary to discuss issues related to illegal overstays, medical emergencies, travel documentation, and mechanisms for disputes between travelers and service providers. (Note: Currently, very few PRC visitors overstay - less than two out of every 1000 according to Taiwan's Tourism Bureau. MAC officials have provided AIT/T data indicating that PRC overstay rates are lower in Taiwan than in South Korea or Japan. In addition, there already exist mechanisms for returning them from Taiwan. End note.)

[1](#)5. (C) Nevertheless, the Taiwan government's Tourism Bureau is enthusiastic about the potential benefits for Taiwan.

Tourism Bureau Director General Hsu Wen-sheng told AIT/T that the initiative would benefit not only Taiwan's tourism industry but also retail sales and other service providers. He argued that beneficial effects will be seen throughout the island and believes many of the estimates put forward by the tourism industry of the potential number of tourists and the money they will bring to the Taiwan economy. MAC's Fu, on the other hand, was more skeptical. He reported that since the PRC liberalized tourist travel to Taiwan-controlled Kinmen Island in December 2004, only 360 Mainland visitors had made the trip.

Industry Chomping at the Bit

16. (U) The reaction to the PRC's proposals in Taiwan's tourism industry has been enthusiastic bordering on giddy. Taiwan's stock market has responded very favorably. From its April 25 close on the eve of Lien Chan's visit to June 8, the Taiwan Stock Exchange Tourism Index rose 37 percent, compared to 7 percent for the TAIEX overall index. Several Taiwan hotel firms have announced increased investment and plans to expand capacity. According to media reports, the Ambassador Hotel, Grand Formosa Regent, and Ritz Taipei Hotel and others have announced expansions that will add 2,000 rooms at a combined cost of NT\$ 20 million (USD 630 million). In addition, two of Taiwan's popular theme parks, Leofoo Wonder World and Janfusun Wonder World are planning expansions.

17. (SBU) Industry organizations are also anxious to see the proposal implemented. The Travel Agent Association of Taiwan (TAAT) and the Taiwan Visitors Association (TVA) have both been named as possible representatives for Taiwan in cross-Strait negotiations. Taiwan media reported that industry sources had said TVA Chairman S.L. Chang would head a Taiwan delegation for negotiations. Chang was formerly Director General of Taiwan's Tourism Bureau. He recently returned from a trip to Beijing where he reportedly met with officials from the PRC's National Tourism Association. TAAT Assistant Chairman Yao Ta-kuang told AIT/T that his organization, which represents 2,500 travel agents in Taiwan, is best suited to represent Taiwan. According to Yao, TAAT assisted MAC and Taiwan's Bureau of Immigration in communicating with Beijing on Taiwan's liberalization of exchange visitors and Mainland tourists who reside outside the PRC.

Potential Impact - Estimates Vary but Bullish Overall

18. (SBU) Estimates vary on the potential economic impact from the potential increase in Mainland tourists, but industry observers are optimistic overall that the impact will be substantial. With fewer than 3 million tourists in 2004, an additional 1,000 tourists per day would increase visits by more than 10 percent. TVA estimates that the new visitors will add NT\$ 15 billion (almost USD 500 million) to the economy. TAAT is more optimistic with a NT\$ 24 billion (USD 770 million) estimated increase in revenue for Taiwan. TAAT's estimate is based on 1,000 additional PRC visitors per day, staying close to 10 days and spending up to NT\$ 50,000 (about USD 1,600) on travel and accommodation expenses and another NT\$ 30,000 (more than USD 950) shopping while in Taiwan. According to TAAT's Yao, Hong Kong's experience suggests that Mainland visitors to Taiwan will spend more than other tourists on average. He also pointed out that its research suggests demand in the Mainland will be high. He said a survey of seven Mainland coastal provinces in 2004 revealed that 28.9 million people would like to travel abroad with Taiwan as their top destination.

19. (SBU) Many analysts point to the experience of Hong Kong. According to a report by CLSA, a brokerage and investment banking services firm, tourism revenues in Hong Kong rose by USD 4.5 billion between 1999 and 2004 - a 62 percent increase - largely thanks to increased tourism from the Mainland. As a result, tourism's share of GDP rose from 4.6 percent to 7.2 percent. However, CLSA analysts also point out that Taiwan is not currently a top tourist destination in Asia. Although the number of Mainland tourists may be high initially, Taiwan may have trouble winning back repeat visitors.

Comment - Chen Administration Standing in the Way

110. (C) Industry observers agree that the PRC's proposed liberalization of tourism to Taiwan could have a substantial positive impact on the island's economy. Some of the estimates may be high, but the potential is real. The Chen Administration has so far appeared determined to stand in the way of this initiative as with others that emerged from the Lien Chan visit. The Taiwan government may find it easier to justify obstruction of the tourism

proposal than the fruit export and panda offers by pointing to security and immigration concerns. However, Taiwan currently accepts tens of thousands of PRC exchange visitors and Mainland tourists who do not reside in the PRC every year - more than 160,000 in 2004. It has found mechanisms to deal with its concerns regarding this kind of travel. Concerns about increased tourism levels could also be resolved quickly, when Taiwan's leadership is ready to make the political decision to get out of the way and facilitate this initiative. On June 10, MAC Chairman Wu told AIT/T Deputy Director that Premier Hsieh might make a statement over the weekend indicating Taiwan's willingness to move forward on this initiative as well as cargo charters and agricultural trade, having come to the end of a cooling-off period after passage of the Anti-Secession Law. If the Taiwan government is suitably flexible with the model for negotiation, there may be hope for progress. End Comment.
PAAL